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RUEHOT/AMEMBASSY OTTAWA 7930
RUEHKO/AMEMBASSY TOKYO 0445
RUFHNA/USMISSION USNATO 9442
RUEHMO/AMEMBASSY MOSCOW 7239
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EXDIS
USEC AND USOECD ALSO FOR EMBASSIES
E.O. 12065: RDS-1 6/30/12 (LOUIS, J.J.) OR-M
TAGS: EEWT, UK, UR, EC
SUBJECT: UK INVOKES BLOCKING LEGISLATION IN RESPONSE TO
- US PIPELINE SANCTIONS
REF: (A) BRUSSELS 8861, (B) BRUSSELS 8877
1. (C - ENTIRE TEXT).
2. SUMMARY: U.K. HAS ISSUED AN ORDER INVOKING THE PROTECTION OF TRADING INTERESTS ACT (PTI) 1980 IN RESPONSE TO U.S. REGULATIONS RESTRICTING THE RE-EXPORT OF U.S.-ORIGIN OIL AND GAS EQUIPMENT AND TECHNOLOGY TO THE USSR. IN MEETING WITH AMBASSADOR, FOREIGN SECRETARY PYM SAID THAT HMG'S ACTION WAS INTENDED TO REGISTER BRITISH OBJECTIONS TO U.S. CONTROLS, A STEP SHORT OF ORDERING JOHN BROWN AND OTHER BRITISH-BASED SUPPLIERS NOT TO COMPLY WITH U.S. DIRECTIVES, LEGALLY POSSIBLE UNDER THE ACT. PYM ALSO PROVIDED ADDITIONAL BACKGROUND ON EUROPEAN COUNCIL'S DELIBERATIONS ON THE JUNE 29 STATEMENT ON U.S.-EC RELATIONS, NOTING THAT THE FRENCH AND GERMANS WANTED STRONGER LANGUAGE THAN FINALLY EMERGED. HE STRESSED THAT THE U.K. WANTS TO AVERT A CONFRONTATION WITH THE U.S. ON THIS POINT AND THOUGHT THE EC'S OFFER TO OPEN A DIALOGUE WAS A POSITIVE STEP. END SUMMARY.
3. FOREIGN SECRETARY CALLED IN AMBASSADOR ON AFTERNDON OF JUNE 30 TO INFORM HIM THAT TRADE SECRETARY COCKFIELD WOULD ISSUE AN ORDER TODAY INVOKING THE PTI IN RESPONSE TO WIDENING OF U.S. CONTROLS ON OIL/GAS EQUIPMENT EXPORTED TO THE USSR. HE SAID THAT BRITAIN AND ITS EC PARTNERS WERE TAKING THE MINIMUM STEPS NECESSARY TO PROTECT THEIR INTERESTS. THE EC WOULD CHALLENGE U.S. ACTION ON PIPELINE SANCTIONS IN THE GATT AND OECD. INVOCATION OF THE PTI IS A SECOND STEP IN THAT PROCESS. HE STRESSED THAT HMG'S ACTIONS CONSTITUTED AN OBJECTION TO THE U.S. CONTROLS.

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HMG NOW HAS AUTHORITY, WHICH IT IS NOT EMPLOYING AT PRESENT, TO FORBID JOHN BROWN AND OTHER BRITISH-BASED SUPPLIERS FROM COMPLYING WITH THE U.S. REGULATIONS.

4. HE STRESSED, HOWEVER, THAT BRITAIN DOES NOT WANT A CONFRONTATION OVER THIS ISSUE. THE OBJECTIVE OF UK/EC ACTIONS IS TO GET THE U.S. TO RECONSIDER ITS POSITION. HE RECOGNIZED THAT THE SUMMIT PARTNERS WERE NOT ALL SATISFIED WITH THE OUTCOME AT VERSAILLES, BUT LITTLE GOOD WOULD BE SERVED BY PROLONGING THE DEBATE ON CONTENTIOUS ISSUES. THE COUNTRIES CONCERNED SHOULD SEEK TO RESOLVE THEIR DIFFERENCES AS QUICKLY AS POSSIBLE. EC WILL ASK THE U.S. TO RECONSIDER ITS DECISION, ASWILL THE FRENCH AND GERMANS INDIVIDUALLY. THE EC OFFER TO OPEN A DIALOGUE WITH THE U.S. ON THIS MATTER WAS A STEP IN THE RIGHT DIRECTION.

5. PYM CONFIRMED THAT EC'S DISCUSSION OF RELATIONS WITH U.S. WAS SPIRITED. THE FRENCH AND GERMANS HAD WANTED A MUCH TOUGHER STATEMENT. THE BRITISH HAD SUCCEEDED IN TURNING BACK EFFORTS TO ISSUE A STRONG STATEMENT AS REPORTED IN REF (B). THE BRITISH BELIEVED THAT THERE WAS NO POINT IN OPENLY CRITICIZING U.S. ACTIONS SINCE THE U.S. AND EC NEED TO WORK TOGETHER ON MANY ISSUES. IN RESPONSE TO AMBASSADOR'S QUESTION, HE SAID THAT GERMANS HAD BEEN HELPFUL IN THE DELIBERATIONS.

6. ON U.S. SANCTIONS, PYM SAID THAT THEY WERE A MISCONCEIVED IDEA FROM THE START. THE TROUBLE THEY ARE CAUSING IS NOT WORTH THE CANDLE IN BRITAIN'S VIEW. HE REFERRED TO THE PARTICULAR PROBLEM OF JOHN BROWN AND THE JOBS LIKELY TO BE LOST BECAUSE OF THE U.S. EXPORT CONTROL REGULATIONS, NOTING MRS. THATCHER'S STRONG FEELINGS ON THIS POINT.

7. IN REPLY, THE AMBASSADOR SAID THAT HE HOPED OUR FRIENDS WOULD STAY COOL. THE EC'S DECISION NOT TO TAKE RETALIATORY ACTION AT YESTERDAY'S MEETING WAS A GOOD SIGN AND HE BELIEVED THAT WE COULD WORK OUT OUR DIFFERENCES.

8. SPEAKING PERSONALLY, PYM SAID THAT THE PROPER COURSE FOR THE U.S. WAS TO STATE THAT THERE HAD BEEN ENOUGH MOVEMENT ON CREDITS AT VIRSAILLES TO JUSTIFY ABANDONMENT OF CONTROLS ON OIL AND GAS EQUIPMENT. HE READILY ADMITTED, HOWEVER, THE OBVIOUS POLITICAL DIFFICULTY IN REVERSING COURSE.

9. THE AMBASSADOR NOTED THAT RECONCILIATION IN POLAND
EXDIS
USEC AND USOECD ALSO FOR EMBASSIES
WOULD FACILITATE THAT PROCESS. PYM REPLIED THAT DEVELOPMENTS IN POLAND WOULD FOLLOW THEIR OWN COURSE; THERE WAS LITTLE WE COULD DO ABOUT IT.

10. ON THE IMPACT OF SANCTIONS ON BRITISH FIRMS, PYM'S PRIVATE SECRETARY BRIAN FALL SAID THAT PENALTY CLAUSES IN THE CONTRACTS WITH THE USSR WOULD TAKE EFFECT IMMEDIATELY. FCO ASSISTANT UNDER SECRETARY HANNAY SAID THAT JOHN BROWN WOULD HAVE TO RELEASE BY JULY 2 THE SIX GE ROTORS NOW IN THE U.K. TO AVOID PENALTIES. PYM ADDED THAT IF JOHN BROWN COLLAPSES BECAUSE OF THE EXPORT BAN, THE ECONOMIC AND POLITICAL REPERCUSSIONS COULD BE SEVERE.

11. HANNAY SAID THAT THE STEEL PROBLEM PROBABLY WAS NOT AS DIFFICULT TO RESOLVE AS PIPELINE SANCTIONS. THERE WERE EARLIER DISCUSSIONS ABOUT VOLUNTARY RESTRAINTS ON EC STEEL EXPORTS TO THE U.S., AND THESE SHOULD BE REVIVED.

12. IN SEPARATE CONVERSATION WITH EMBOFF, DEPARTMENT OF TRADE ASSISTANT SECRETARY MICHAEL JOHNSON SAID THAT HMG'S ORDER WAS DIRECTED AT OUR RE-EXPORT RESTRICTIONS ON EQUIPMENT ALREADY IN THE U.K. (THE GE ROTORS) OR UNDER THE CONTROL OF AN AMERICAN SUBSIDIARY RESIDENT IN THE U.K. THE ORDER WOULD NOT, OF COURSE, DEAL WITH U.S.-ORIGIN GOODS NOT PHYSICALLY PRESENT IN THE U.K. HE ADDED THAT IT IS LIMITED IN SCOPE AND DESIGNED TO DEMONSTRATE HMG'S "CLEAR CONCERN" OVER THE PIPELINE RESTRICTIONS AND U.K.

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"DISPLEASURE" WITH THE EXTRATERRITORIAL IMPLICATIONS OF U.S. REGULATIONS. HE ADDED THAT HMG ONLY NOW IS RECEIVING INDICATIONS THAT U.S. SUBSIDIARIES AND COMPANIES EMPLOYING U.S. TECHNOLOGY HAVE SIGNED PIPELINE CONTRACTS THAT COLLECTIVELY MAY WELL EXCEED THE SIZE OF THE JOHN BROWN CONTRACT.

13. DETAILS OF BRITISH LEGISLATION FOLLOWS BY SEPTEL.
LOUIS
END OF MESSAGE CONFIDENTIAL

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